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UNCLAS BRATISLAVA 000880

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TREASURY FOR CHRISTOPHER GREWE

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SUBJECT: EXCELLENT RESULTS FOR THE SLOVAK ECONOMY

1. Summary. The Slovak economy rose at a real annual rate of 5.4 percent in the second quarter of 2004, beating the market forecast of 5.0 percent. Household consumption and robust investment led the growth, replacing external demand, which had been powering the economy for the previous six quarters. The Slovak GDP expanded by 4.2 percent in 2003 and 5.5 percent in the first quarter of this year, making it the second fastest growing market in Central Europe, trailing only Poland. End Summary.

2. The Slovak economy showed a strong real growth rate of 5.4 percent (9.7 percent in nominal terms) during the second quarter of 2004. Though down from the first quarter's rate of 5.5 percent, the growth still exceeded the average market forecast of 5.0 percent. In real prices, the second quarter GDP equaled USD 9.95 billion. Analysts characterized the growth as well balanced and had "ideally diversified" support from both internal and external factors. The driving force of the increase was, however, domestic consumption.

3. The second quarter's overall domestic demand increased by 5.8 percent from 2003. Household consumption expanded by 2.8 percent, its second consecutive increase after a two-year decline caused by austerity measures of the GOS. This change reflects the gradual growth in nominal wages that the Central Bank expects to expand by between 7.9 and 9.5 percent in 2004. In addition, the gross fixed capital formation rose by 0.9 percent from the first quarter of 2004 and by 3.5 percent from 2003. Gross investments (gross fixed investment plus change in stocks) increased by a sharp 13.8 percent, reflecting the start of large-scale investments such as the Peugeot auto plant.

4. Exports continued to rise, increasing by 16.4 percent from 2003 during the second quarter. There was little change in the trade balance, however, as imports accelerated by 17 percent, up from only 12 percent in the first quarter of 2004. The significant increase is likely a result of capital purchases related to foreign direct investment.

5. The unexpected growth prompted the Slovak Statistics Office to improve its GDP growth forecast to 5.5 percent for 2004. Many analysts followed suit, raising their forecasts to levels above 5.0 percent. The Ministry of Finance and Central Bank, however, maintained their projections of 4.7 and 4.4 percent growth respectively.

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